GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0280	**Title:**	Revise tax exemption of rental personal property
Primary Sponsor:	Gebhardt, Kelly	**Status:**	As Amended in Senate Committee

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☐ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	($23,338)	($24,498)	($25,497)	($26,537)
State Special Revenue	($1,474)	($1,547)	($1,610)	($1,676)
Net Impact-General Fund Balance:	($23,338)	($24,498)	($25,497)	($26,537)

Description of fiscal impact:

Under current law, items of class 8 rental or lease equipment which are owned by a rental or lease company that have an acquired cost of less than $15,000, are exempt from property taxation, if the items are generally leased on an hourly, daily or weekly basis. This bill extends this exemption to items that are generally leased on a semi-monthly or monthly basis. This bill will reduce general fund revenues by $23,338 in FY 2010. The reduction is projected to increase by between 4% and 5% per fiscal year thereafter.

FISCAL ANALYSIS

Assumptions:

1. This bill revises 15-6-219 (5), MCA, which exempts from property taxation the personal property which is owned by a rental or lease company. In cases where no one customer can account for more than 10% of the total rentals or leases during a calendar year.
2. 15-6-219(5)(c), MCA, under current law, limits the exemption to property that is generally leased on a hourly, daily or weekly basis. This bill extends this exemption to property that is generally leased on a semi-monthly or monthly basis.
3. The department of revenue selected from the tax year 2008 property tax database, those items with the property class code 6837 (Class 8 Leased and Rental Equipment) with an acquired cost of less than

$15,000. The department then screened the property tax database for the records of rental companies based on the company name. From this dataset, the department selected items of class 8 property (with property class codes other than 6837) with an acquired cost of less than $15,000, and which were deemed to be rental property. The following table shows the results of these calculations.

Reduction in Taxable Value and Taxes under HB 280 had been in place for Tax Year 2008

Property Class Code and Description	Taxable Value 2008
6111 Agricultural Implements and Machinery	$1,415
6311 Furniture and Fixtures of Commercial Properties	$20,328
6510 Non-Exempt Tools & Other Shop Equipment	$2,660
6511 Heavy Equipment and SM Equipment	$684
6514 Manufacturing Machinery and Manufacturing Tools	$733
6834 Citizen Band Radios and Mobile Phones	$315
6837 Class 8 Leased and Rental Equipment	$207,895
Total Reduction to Taxable Value	**$234,030**

4. New section 2 provides for the applicability to tax years beginning after December 31, 2009. Tax year 2010 will be the first year affected by this bill. Because this bill applies to personal property not liened to real property, TY 2010 taxes will be due and payable in April, 2010 (FY 2010).
5. The department estimated taxes based on the total taxable value of the property identified in assumption 3. The statewide average mill for class 8 property in TY 2008 was 515.93. The state general fund 95 mills for elementary and high school education and the statewide university state special revenue mills were subtracted from the total mills to derive an average mill levy for local jurisdictions of 414.93 mills (515.93 – 95.00 – 6.00 = 414.93). Revenue reduction was projected using the growth rates for class 8 property from HJR 2 for FY 2010 and FY 2011, and the Office of Budget and Program Planning for FY 2012 and FY 2013. The following table shows the results of assumptions 3, 4, and 5.

Estimated Fiscal Impact of HB 280

	FY 2009 (Basis)	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Projected Class 8 Growth		4.97%	4.97%	4.08%	4.08%
Total Reduction to Taxable Value	$234,030	**$245,661**	**$257,870**	**$268,391**	**$279,341**
Estimated Reduction to State General Fund Taxes 95 mills		$23,338	$24,498	$25,497	$26,537
Estimated Reduction to University SSR Fund Taxes 6 mills		$1,474	$1,547	$1,610	$1,676
Estimated Reduction to Local Government Taxes (414.93 mills)		$101,932	$106,998	$111,363	$115,907
Estimated Reduction to Total Taxes		$126,744	$133,043	$138,470	$144,120

6. This bill will not increase administrative costs for the department of revenue.

	FY 2010 Difference	FY 2011 Difference	FY 2012 Difference	FY 2013 Difference
Fiscal Impact:				
Department of Revenue				
Revenues:				
General Fund (01)	($23,338)	($24,498)	($25,497)	($26,537)
State Special Revenue (02)	($1,474)	($1,547)	($1,610)	($1,676)
TOTAL Revenues	($24,812)	($26,045)	($27,107)	($28,213)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($23,338)	($24,498)	($25,497)	($26,537)
State Special Revenue (02)	($1,474)	($1,547)	($1,610)	($1,676)

Effect on County or Other Local Revenues or Expenditures:

1. County and other local jurisdiction revenues will be reduced by about $100,000 in FY 2010 and increase by an additional $5,000 annually. To the extent that local jurisdictions can adjust their mills, they can recover part or all of these revenues.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*